

Message Text

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ACTION EUR-12

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TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

PASS TREASURY FOR WIDMAN, PASS FRB

1. SUMMARY. BALANCE OF PAYMENTS FOR NOVEMBER REGISTERED
DEFICIT OF \$484 MILLION, RESULTING IN CUMULATIVE ADJUSTED
DEFICIT FOR ELEVEN-MONTH PERIOD OF \$7,460 MILLION. NOVEMBER
DEFICIT FOLLOWED ADJUSTED OCTOBER DEFICIT OF \$594 MILLION
AND ADJUSTED SEPTEMBER DEFICIT OF \$21 MILLION. \$8 BILLION
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ADJUSTED BALANCE OF PAYMENTS DEFICIT FOR 1974 AND \$5 - 6 BILLION

DEFICIT FOR 1975 FORECASTED BY BANK OF ITALY. BANK OF ITALY INTERVENTION FROM DECEMBER 1 THROUGH 17 OF \$120 MILLION SHOWS IMPROVEMENT WHEN COMPARED TO \$600 MILLION FIGURE FOR MONTH OF NOVEMBER. WEIGHTED AVERAGE DEVALUATION OF LIRA BETWEEN OCTOBER 1 AND DECEMBER 17 WAS 2.95 PERCENT ACCORDING TO BOI INDEX. SECOND DRAWING FROM IMF OIL FACILITY OF SDR 412.5 MILLION MADE ON DECEMBER 4. END SUMMARY.

2. MONETARY MOVEMENTS DATA FOR NOVEMBER SHOW DEFICIT OF \$484 MILLION. MAIN DEVELOPMENTS DURING PERIOD WERE DECREASE IN CONVERTIBLE CURRENCY HOLDINGS BY \$518 MILLION AND REPAYMENTS OF \$68 MILLION BY COMMERCIAL BANKS ON THEIR NET FOREIGN LIABILITIES. BOI SHORT-TERM LIABILITIES INCREASED BY \$22 MILLION, BOI MEDIUM AND LONG-TERM LIABILITIES INCREASED BY \$14 MILLION, AND BOI SDR HOLDINGS INCREASED BY \$2 MILLION.

3. RECORDED CUMULATIVE DEFICIT FOR ELEVEN-MONTH PERIOD FROM JANUARY THROUGH NOVEMBER WAS \$5,340 MILLION AND ADJUSTED CUMULATIVE DEFICIT (INCLUDING EUROMARKET BORROWINGS OF \$2,150 MILLION LESS \$30 MILLION BNL REPAYMENT) WAS \$7,460 MILLION. DEFICIT HAS BEEN FINANCED BY INCREASE IN BOI FOREIGN EXCHANGE ASSETS OF \$532 MILLION, REDUCTION OF SDR HOLDINGS OF \$185 MILLION, DECREASE IN NET IMF POSITION BY \$359 MILLION AS RESULT OF DRAWING-DOWN OF SUPER GOLD TRANCHE, REDUCTION IN BOI SHORT-TERM LIABILITIES BY \$323 MILLION, INCREASE IN MEDIUM AND LONG-TERM BOI LIABILITIES OF \$5,084 MILLION (INCLUDING EC CREDIT, GERMAN GOLD COLLATERAL LOAN, IMF STANDBY LIABILITIES AND FIRST IMF OIL FACILITY DRAWING), AND INCREASE IN NET SHORT-TERM BORROWINGS OF COMMERCIAL BANKS OF \$567 MILLION.

4. ACCORDING TO HEAD OF BOI EXCHANGE OPERATIONS, ERCOLANI, NET MARKET INTERVENTION IN NOVEMBER TOTALED APPROXIMATELY \$600 MILLION. INTERVENTION FROM DECEMBER 1 TO DECEMBER 17 HAS SHARPLY TAPERED OFF FROM NOVEMBER LEVELS AND TOTALED APPROXIMATELY \$120 MILLION. AN \$8 BILLION ADJUSTED BALANCE OF PAYMENT DEFICIT FOR 1974 AND A DEFICIT BETWEEN \$5-6 BILLION IN 1975 ARE FORECAST BY THE BANK OF ITALY, ACCORDING TO ERCOLANI.

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5. ERCOLANI ALSO INDICATED THAT GOI MADE SECOND DRAWING OF SDR 412.5 MILLION FROM IMF OIL FACILITY ON DECEMBER 4. IN RESPONSE TO QUESTION ON POSSIBILITY OF SMALL THIRD TRANCHE DRAWING, ERCOLANI THOUGHT IT WOULD NOT BE NECESSARY BUT WOULD NOT RULE OUT THE POSSIBILITY. FIRST DRAWING OF SDR 262.5 MILLION PLUS SECOND DRAWING OF SDR 412.5 MILLION BRINGS ITALY'S USE OF THE FACILITY TO SDR 675 MILLION, OR TO 90 PERCENT

OF 750 MILLION SDR BASE.

7. ON DECEMBER 17, LIRA EXCHANGE RATE WAS 655.45 LIRE PER DOLLAR. THREE-MONTH FORWARD RATE WAS 677.45 AND WEIGHTED AVERAGE DEVALUATION OF LIRA, ACCORDING TO BOI INDEX, WAS 21.72 PERCENT, SLIGHTLY UP FROM RECORD LOW OF 21.96 ON DECEMBER 17. ACCORDING TO INDEX, WEIGHTED AVERAGE DEVALUATION OF LIRA BETWEEN OCTOBER 1 AND DECEMBER 17 WAS 2.95 PERCENT. ALSO ON DECEMBER 17 THREE-MONTH EUROLIRA INTEREST RATE WAS 23.50 PERCENT. FORTY-EIGHT HOUR AND THREE-MONTH LIRA INTERBANK INTEREST RATES WERE NOT AVAILABLE ON DECEMBER 17. VOLPE

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